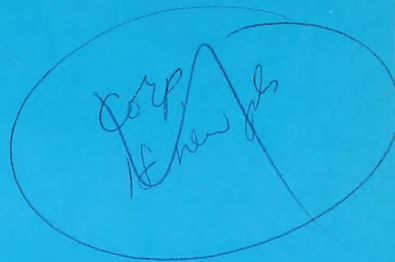


ANNUAL REPORT

nineteen sixty eight

AR12



inter-city gas
L I M I T E D

ANNUAL REPORT

nineteen
sixty
eight

inter-city gas
LIMITED

ANNUAL REPORT

nineteen
sixty
eight

inter-city gas
LIMITED



TEN YEAR SUMMARY OF OPERATIONS

	1968 (Note)	1967	1966	1965	1964	1963	1962	1961	1960	1959
Communities served.....	54	60	50	24	15	14	13	11	11	9
Total Plant Investment.....	\$15,296,379	\$15,124,876	\$11,375,363	\$6,013,640	\$4,072,038	\$3,530,536	\$3,345,521	\$3,155,532	\$2,812,560	\$2,606,106
Revenue from Sale of Natural Gas.....	\$ 7,547,235	\$ 6,459,562	\$ 5,254,717	\$1,768,846	\$1,508,785	\$1,314,381	\$1,234,391	\$1,072,740	\$ 937,129	\$ 627,302
Net Earnings (After Tax).....	\$ 474,329	\$ 448,177	\$ 342,463	\$ 331,834	\$ 213,910	\$ 152,206	\$ 129,203	\$ 107,757	\$ 125,280	\$ 80,328
Percentage Increase.....	6%	31%	3%	55%	40%	18%	20%	(14%)	56%	
Dividends paid—preferred shares.....	\$ 229,750	\$ 229,750	\$ 73,500							
—common shares.....	\$ 119,330	\$ 119,330	\$ 119,330	\$ 109,387	\$ 99,442	\$ 87,012	\$ 74,582	\$ 35,941		
Earnings per share.....	\$.82	\$.73	\$.90	\$ 1.11	\$.86	\$.61	\$.52	\$.45	\$.52	\$.34
Potential (Total Premises facing Mains).....	34,003	34,819	29,241	12,902	8,317	6,956	6,602	6,091	5,787	5,540
Year End Customers.....	17,755	17,297	12,762	6,766	5,621	4,965	4,375	3,889	3,414	2,792
Natural Gas Sales—MCF.....	13,298,553	10,665,242	9,703,460	2,553,100	2,193,000	1,928,000	1,835,000	1,610,000	1,406,000	883,000

NOTE: The assets of North Star Natural Gas Company of Wisconsin, Inc. were sold at June 30, 1968. Operations in the Wisconsin company at December 31, 1967 consisted of: Communities served, 6; Total Plant Investment, \$839,512; Potential (Total Premises facing Mains), 1510; Year End Customers, 583.

inter-city gas

L I M I T E D



Board of Directors

OFFICERS

ROBERT G. GRAHAM, PRESIDENT
N. W. DUBOIS, P.ENG., VICE-PRESIDENT
E. P. RIMMER, P.ENG., VICE-PRESIDENT
G. H. LUCAS, VICE-PRESIDENT
WAYNE R. HARDING, VICE-PRESIDENT
R. T. ANDERSON, VICE-PRESIDENT

DIRECTORS

N. W. DUBOIS, EDMONTON, ALBERTA
ROBERT G. GRAHAM, WINNIPEG, MANITOBA
GORDON P. OSLER, TORONTO, ONTARIO
E. P. RIMMER, WINNIPEG, MANITOBA
ALAN SWEATMAN, Q.C., WINNIPEG, MANITOBA
DAVID B. WELDON, TORONTO, ONTARIO

SOLICITORS

PITBLADO, HOSKIN & COMPANY

AUDITORS

MCDONALD, CURRIE & CO.

TRANSFER AGENT AND REGISTRAR

CANADA PERMANENT TRUST COMPANY
WINNIPEG, TORONTO, CALGARY AND VANCOUVER

EXECUTIVE OFFICE

300—203 PORTAGE AVENUE
WINNIPEG, MANITOBA

Report of the Board
of Directors
to the
Shareholders



ROBERT G. GRAHAM
President

Your Directors are pleased to report the results of operations for 1968 and to provide your copy of the Annual Report of the Company.

FINANCIAL RESULTS

Net profit after income taxes for the year 1968, \$474,329, represented an increase of 6% over 1967 and resulted in earnings per share of 82¢, an increase of 12%. Although 1968 revenues increased by approximately 23% over the previous year, a significant portion of the benefit of this increase was absorbed by substantially increased costs over which the Company cannot exercise control. For example, during 1968, our property taxes rose more than 20%. To compensate, the Company has increased natural gas rates in many of the communities served in Minnesota. Rates are also under review by the Public Utilities Board of Manitoba in the application by Inter-City Gas Utilities Ltd for a single rate base.

SALES

In the year 1968, sales of natural gas exceeded 13 billion cubic feet, an increase of 24% from the previous year. Of this volume, North Star Natural Gas Company of Wisconsin, Inc., which was sold during 1968, contributed only 24 million cubic feet. In spite of the sale of the Wisconsin operation which consisted of 6 communities and 583 customers, the Company added a sufficient number of new customers in the other systems to reflect a significant net increase in year-end heating customers.

ADDITIONAL PLANT

During 1968, the amount of \$1,076,452 was expended on new plant facilities, primarily for the extension of mains, service lines and related equipment required to service the additional customers attracted to natural gas in our established communities.

DIVIDENDS

The Company paid dividends at a rate of 40¢ per common share in addition to the regular preferred share dividends of \$73,500 on the Series A First Preference Shares and \$156,250 in the Series A Second Preference Shares.

BULLOCH'S LIMITED

At March 31, 1969, your Company acquired 57.6% of the outstanding voting stock of Bulloch's Limited by exchange of 11,100 shares of Inter-City for 33,300 shares of Bulloch's. An offer of \$5.00 per share for the remaining voting shares of Bulloch's is presently outstanding. Bulloch's Limited, a manufacturer and distributor of heating equipment has recently obtained the requisite approvals to distribute equipment in the United States and will extend operations into our natural gas service areas within the United States during 1969. Earnings attributable to the voting shares of Bulloch's Limited for the year ended December 31, 1968, were 39¢ per share. Mr. T. D. Bulloch, president and general manager of Bulloch's Limited, has assumed a senior office with your Company.

MANITOBA PUBLIC UTILITIES BOARD

Inter-City Gas Utilities Ltd., a subsidiary of Inter-City Gas Limited, has made application of the Manitoba Public Utilities Board for an order which would have the effect of recognizing our operation in Manitoba as a single economic unit, or rate base, serviced by only two rate schedules, rather than a series of separate economic units serviced by a multiplicity of rate schedules.

PUBLIC UTILITY HOLDING COMPANY ACT AND FINANCIAL REORGANIZATION

Inter-City Gas Limited is no longer subject to the restrictive provisions of the Public Utilities Holding Company Act of 1935, a United States federal statute. Prior to March 31, 1969 your Company was subject to the obligations, duties and liabilities imposed by the Act on holding companies, which required prior approval of the Securities and Exchange Commission for the acquisition of the utility assets of other companies.

The status of Inter-City Gas Limited as a registered holding company endured throughout 1968 while a practical program of inter-company mergers was developed. Our completed program of financial re-organization has been approved by the Securities and Exchange Commission as satisfying the requirements for exemption from the limiting provisions of the Public Utilities Holding Companies Act and has been ruled upon by the United States taxation authorities as being a non-taxable transaction.

As a prerequisite to our program, it was necessary to redeem the outstanding funded debt of each of Iron Ranges Natural Gas Company and North Star Natural Gas Company, both Minnesota corporations and to dispose of North Star Natural Gas Company of Wisconsin, Inc.

As at January 1, 1969, Iron Ranges Natural Gas Company was merged into Inter-City Gas Limited and as at March 31, 1969, North Star Natural Gas Company was merged via Superior Gas Company, into Inter-City Gas Limited. As a result of this reorganization, Inter-City Gas Limited, still a Canadian company, operates as a distributor of natural gas in the State of Minnesota and continues as the parent company of Inter-City Gas Utilities Ltd. which operates in Manitoba.

FINANCING

Your Company has arranged a private placement in the United States of \$4,000,000 (Canadian) in new first mortgage bonds on favorable terms negotiated during September of 1968. Proceeds of this issue will be used to repay bank borrowings arising from the redemption of funded debt during 1968 and from new construction financed with bank credit during the two years while Inter-City Gas Limited was subject to the Public Utility Holding Company Act.

The President and Directors wish to express their appreciation for the co-operation received from the Councils and citizens of the communities served and to extend their best wishes to Mr. G. A. Cassidy, former Vice-President who has resigned from our Company to take an executive position in the city of Portage la Prairie. We further acknowledge the efforts of our employees whose contribution to the results outlined in this report is greatly appreciated.

ON BEHALF OF THE BOARD OF DIRECTORS,



President.

inter-city gas

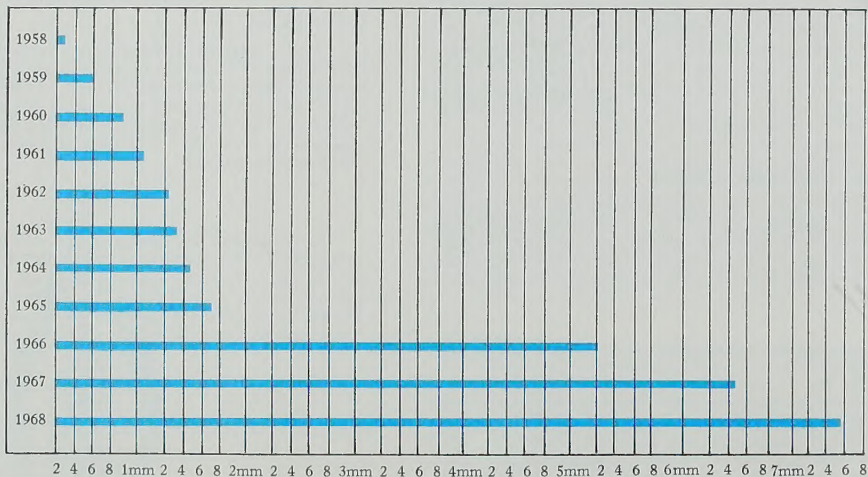
L I M I T E D

AND SUBSIDIARY COMPANIES

Sales Growth

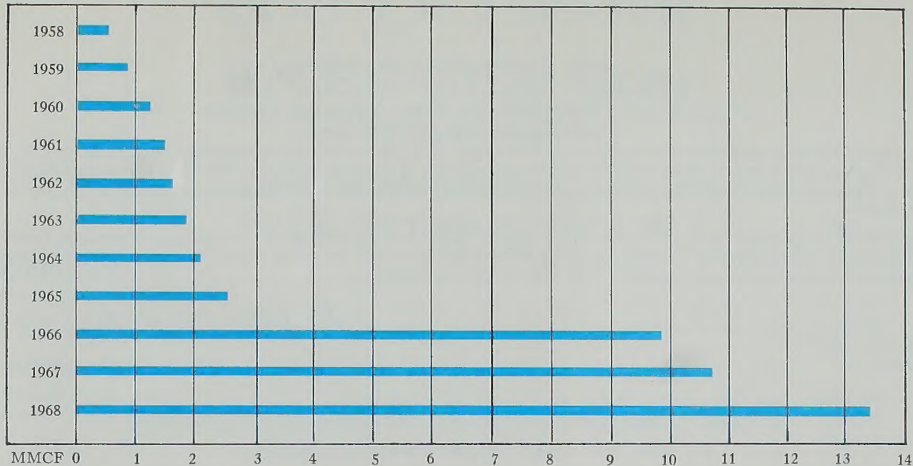
REVENUE FROM GAS SALES

■ Dollars in 100,000's and millions



ANNUAL GAS SALES

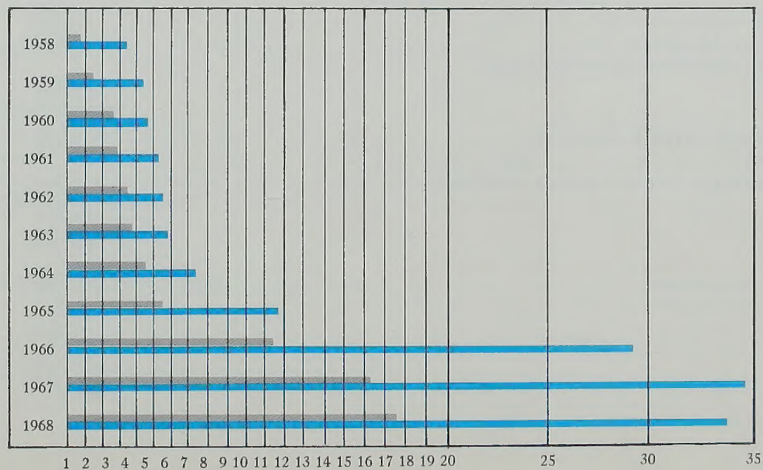
In 1000's



POTENTIAL CONNECTIONS

CUSTOMERS

Number in 1000's



inter-city gas

L I M I T E D

AND SUBSIDIARY COMPANIES

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Inter-City Gas Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of income, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie Co.

CHARTERED ACCOUNTANTS

March 29, 1969
Winnipeg, Manitoba.

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967
	\$	\$
Balance—Beginning of Year.....	1,655,599	1,001,113
ADD:		
Consolidated net income for the year.....	474,329	448,177
Adjustment of prior years' depreciation.....		220,223
Gain on sale of shares in Columbia Natural Gas Limited.....		396,514
	<u>2,129,928</u>	<u>2,066,027</u>
DEDUCT:		
Write-off of plant disallowed for rate base purposes.....	109,266	
Loss on disposal of plant.....		61,348
Unamortized finance charges on long term debt retired (Note 8).....	94,669	
	<u>203,935</u>	<u>61,348</u>
	<u>1,925,993</u>	<u>2,004,679</u>
DIVIDENDS PAID:		
5¼% Series A first preference shares.....	73,500	73,500
6¼% Series A second preference shares.....	156,250	156,250
Common shares.....	119,330	119,330
	<u>349,080</u>	<u>349,080</u>
Balance—End of Year.....	<u>1,576,913</u>	<u>1,655,599</u>

inter-city gas

L I M I T E D

AND SUBSIDIARY COMPANIES

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967
	\$	\$
OPERATING REVENUE		
Sale of natural gas.....	7,547,235	6,459,562
Merchandising and rental income..	46,871	31,345
	<u>7,594,106</u>	<u>6,490,907</u>
OPERATING EXPENSES		
Natural gas purchased.....	4,903,122	4,010,281
Operation and maintenance.....	848,043	812,035
Municipal taxes.....	368,582	360,561
Depreciation	329,770	292,390
	<u>6,534,231</u>	<u>5,490,505</u>
GROSS EARNINGS	1,059,875	1,000,402
OTHER INCOME	112,477	63,564
	<u>1,172,352</u>	<u>1,063,966</u>
INCOME DEDUCTIONS		
Interest on funded debt.....	368,582	360,561
Other interest.....	303,101	228,755
Amortization of financing expenses.....	31,493	33,480
Interest charged to construction.....	(17,182)	(19,145)
	<u>685,994</u>	<u>603,651</u>
	486,358	460,315
PROVISION FOR INCOME TAXES — (Note 6)	10,986	10,264
	475,372	450,051
MINORITY INTEREST	1,043	1,874
CONSOLIDATED NET INCOME FOR THE YEAR	<u>474,329</u>	<u>448,177</u>

inter-city gas

L I M I T E D
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

AS AT DECEMBER 31, 1968

	<u>A S S E T S</u>	1968	1967
		\$	\$
FIXED ASSETS			
Property, plant and equipment—at cost.....	15,296,379	15,124,876	
Accumulated depreciation.....	1,745,507	1,487,692	
	13,550,872	13,637,184	
Cost of gas rights and franchises for which no provision for amortization has been made ...	957,053	957,053	
	<u>14,507,925</u>	<u>14,594,237</u>	
INVESTMENTS—at cost			
Note receivable.....	295,022	306,124	
Other	57,220	55,462	
	<u>352,242</u>	<u>361,586</u>	
CURRENT ASSETS			
Cash.....	220,258	1,984,644	
Accounts receivable, less provision for doubtful accounts:			
Trade and sundry.....	1,119,371	1,063,529	
Conditional sales contracts.....	199,417	247,602	
Materials and supplies—at cost.....	346,368	277,870	
Prepaid expenses.....	29,486	21,859	
Income taxes recoverable.....	22,609		
	<u>1,937,509</u>	<u>3,595,504</u>	
DEFERRED CHARGES—at cost less amortization:			
Financing expenses.....	355,969	478,770	
Natural gas market development.....	244,998	182,450	
Other.....	179,015	101,833	
	<u>779,982</u>	<u>763,053</u>	
	<u>\$17,577,658</u>	<u>\$19,314,380</u>	

SIGNED ON BEHALF OF THE BOARD



Director



Director

<u>LIABILITIES</u>			<u>1968</u>	<u>1967</u>
		\$	\$	
FUNDED DEBT — (Note 3)		4,566,000		6,537,150
SHAREHOLDERS' EQUITY				
CAPITAL STOCK—(Note 4)				
Authorized—				
147,900 cumulative redeemable first preference shares of the par value of \$20 each issuable in series.				
300,000 cumulative redeemable second preference shares of the par value of \$20 each, issuable in series.				
500,000 common shares of no par value.				
Issued and fully paid—				
67,900 5¼% series A first preference shares	1,358,000		1,400,000	
125,000 6¼% series A second preference shares	2,500,000		2,500,000	
298,326 common shares	1,641,778		1,641,778	
	5,499,778		5,541,778	
RETAINED EARNINGS				
Appropriated—(Note 5)	527,900		490,600	
Unappropriated	1,049,013		1,164,999	
	1,576,913		1,655,599	
	7,076,691		7,197,377	
CUSTOMERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	165,418		158,029	
MINORITY INTEREST IN SUBSIDIARY COMPANY	11,002		10,606	
CURRENT LIABILITIES				
Bank advances — (Note 2)	4,294,865		3,889,792	
Accounts payable and accrued liabilities	1,121,718		1,102,243	
Income taxes payable			1,600	
Deferred income	35,262		38,685	
Current portion of funded debt	149,500		232,500	
Customers' security deposits	157,202		146,398	
	5,758,547		5,411,218	
	<u>\$17,577,658</u>		<u>\$19,314,380</u>	

inter-city gas
L I M I T E D
AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Use of Funds

	FOR THE YEAR ENDED DECEMBER 31, 1968	1968	1967
		\$	\$
SOURCE OF FUNDS			
Net earnings for the year.....		474,329	448,177
<i>Add—Charges not requiring cash:</i>			
Depreciation.....		329,770	292,390
Amortization.....		62,857	33,480
Minority interest.....		1,043	1,874
Customers' contributions in aid of construction.....		7,389	14,080
Sale of investments—net.....			372,503
Proceeds of issue—7% debentures—series B.....			1,300,000
Proceeds of sale of Wisconsin properties.....		725,734	
Repayment of notes receivable.....		11,102	
		<u>1,612,224</u>	<u>2,462,504</u>
USE OF FUNDS			
Purchase of fixed assets—net.....		1,076,452	1,224,777
Redemption of funded debt.....		1,971,658	232,501
Dividends paid.....		349,080	349,080
Financing and rate hearing expenses.....		56,639	67,728
Customer equipment subsidization program.....		93,466	182,450
Deferred charges.....		28,253	38,170
Purchase of shares—Iron Ranges Natural Gas Company.....			17,738
Redemption of preference shares.....		42,000	
		<u>3,617,548</u>	<u>2,112,444</u>
DECREASE IN WORKING CAPITAL		<u>2,005,324</u>	<u>(350,060)</u>
WORKING CAPITAL DEFICIENCY			
Beginning of year.....		1,815,714	1,986,574
Decrease in working capital during year.....		2,005,324	(350,060)
		3,821,038	1,636,514
Working capital deficiency in subsidiary company not consolidated at previous year-end.....			179,200
WORKING CAPITAL DEFICIENCY—End of year		<u>3,821,038</u>	<u>1,815,714</u>

inter-city gas

L I M I T E D

AND SUBSIDIARY COMPANIES

Notes to Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1968

1. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies.

The financial statements of the United States subsidiaries have been converted into Canadian Funds at the average rate of exchange during the year.

2. BANK ADVANCES

The company has guaranteed bank advances to subsidiary companies in the amount of \$3,080,000. Book debts of a subsidiary company have been pledged as security for bank advances in the amount of \$1,200,000.

3. FUNDED DEBT

The funded debt of the company and its consolidated subsidiaries is as follows:

	<i>Year of maturity</i>	<i>Principal amount outstanding \$</i>
INTER-CITY GAS LIMITED		
7% debenture—series B.....	1982	1,300,000
INTER-CITY GAS UTILITIES LTD.		
6% first mortgage bonds—series A.....	1977	337,500
6% first mortgage bonds—series B.....	1982	450,000
6% first mortgage bonds—series C.....	1985	2,043,000
6¼% debentures—series A.....	1979	585,000
		4,715,500
Less: Sinking Fund instalments due within one year.....		149,500
		4,566,000

4. CAPITAL STOCK

The company has reserved 15,000 shares of its authorized but unissued common shares of no par value for issue to employees of the company upon exercise of options.

Options have been granted to purchase 12,500 shares at \$10.80 per share exercisable during the period ending December 1, 1974. The company has reserved a further 88,500 common shares for issue at \$20 per share on the exercise of share purchase warrants during the period ending October 30, 1973.

The Company is required by its Letters Patent to purchase annually in the market within certain limits, 3% of the outstanding 5¼% series A first preference shares, of which 2,100 were purchased and cancelled during 1968, and 3% of the outstanding 6¼% series A second preference shares on January 1, 1969, and each year thereafter.

5. RETAINED EARNINGS

As directed by The Public Utilities Board of Manitoba, the Canadian subsidiaries have appropriated retained earnings equal to the amount by which income taxes have been deferred as a result of claiming capital cost allowance in excess of depreciation recorded in the accounts.

6. INCOME TAXES

As a result of claiming for income tax purposes (a) capital cost allowance in excess of recorded depreciation, (b) certain interest and overhead amounts recorded as cost of depreciable assets, and (c) financing and development expenses deferred to future periods, Canadian income taxes have been reduced and the consolidated net earnings increased by \$135,500. The accumulated amount by which income taxes have been reduced to December 31, 1968 is \$918,800.

7. DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration received by directors and senior officers of the company during 1968, in the capacity of director, officer or employee amounted to \$104,000.

8. PUBLIC UTILITY HOLDING COMPANY ACT

The company has been granted exemption from the restricting provisions of the Public Utility Holding Company Act of 1935, a United States federal statute which imposed limitations on the company's development. The order granting the exemption required the disposal of the utility system in Wisconsin, the retirement of the funded debt of the United States companies and the merger of the subsidiary companies operating in the United States into Inter-City Gas Limited.



inter-city gas
L I M I T E D

SERVICE AREA



COMMUNITIES
SERVED

Manitoba
Binscarth
C.J.A.T.C., Rivers
Dauphin
Gilbert Plains
Grandview
Grunthal
Hamiota
Ingils
MacGregor
Minitota
Minnedosa
Neepawa
New Bothwell
Niverville
Portage la Prairie
Rivers
Roblin
Russell
Ste. Anne
St. Claude
St. Lazare
St. Pierre
Shilo
Steinbach
Virden



[illegible]

Aurora
Barnum
Bertha
Biwabik
Bovey
Buhl
Calumet
Carlton
Chisholm
Cloquet
Coleraine
Crosby
Deerwood
Eveleth
Gilbert
Grand Rapids
Ironton
Keewatin
Kettle River
Marble
Moose Lake
Mountain Iron
Nashwauk
Proctor
Seanlon
Silver Bay
Staples
Thief River Falls
Wadena



